Tax Incentive Fact Sheet

What is the biodiesel tax incentive?

The biodiesel tax incentive is a federal excise tax credit that brings lower-cost biodiesel to biodiesel consumers. The credit equates to one penny per percent of biodiesel in a fuel blend made from agricultural products like vegetable oils, and one-half penny per percent for recycled oils. The incentive is taken at the blender level, meaning petroleum distributors, and passed on to the consumer.

What will this do to the price of biodiesel?

Based on DTN's Alternative Fuels Index, the average price of No. 2 diesel in mid-October was $1.53 per gallon. The price of B20 was $1.72 per gallon. The tax incentive could lower the price of B20 to be approximately the same price as diesel based on these numbers (to about $1.52 per gallon). There will be variables that determine the cost differential, including the price of diesel, but the tax incentive will help close the gap. **Blenders will be driven to pass most of the savings on to consumers out of sheer competition, however some of the tax incentive may be put towards infrastructure costs.**

How much demand for biodiesel is this tax incentive going to create?

The tax incentive will significantly increase biodiesel demand. **A USDA study has estimated biodiesel demand to increase to at least 124 million gallons per year, but depending on a number of other factors including crude oil prices, the industry projects that demand could be much higher during the next decade.**

What does the industry currently produce?

FY 2003: 25 million gallons.
FY 2004: 30 million gallons, estimated.

What is the capacity of the biodiesel industry currently?

Current production capacity, which includes dedicated biodiesel plants and oleochemical companies producing biodiesel, is estimated to be about **150 million gallons per year.** But, with many new biodiesel projects in various stages of development, industry capacity could double over the next 12-18 months.

How many jobs will this create?

Passage of the biodiesel tax provisions will provide an economic surge in several sectors of the US economy including manufacturing, agriculture, and all sectors that provide support services to these industries. It's estimated that the tax incentive could create **up to 50 thousand jobs in the United States over the next ten years.** (Construction of new capacity, the production and use of biodiesel, and increased final demand for agricultural products. Source: M. Urbanchuk, AUS Consultants, January 23, 2002)

How much soybean oil and recycled cooking oil is currently available to make biodiesel?

USDA estimates the U.S. soybean crop to exceed 2.9 billion bushels in 2004, more than 4 billion gallons of potential biodiesel production. Although there are many uses for soybeans and soybean oil, an excess inventory of more than one billion pounds of soybean oil exists in the market. That's the equivalent of 133 million gallons of biodiesel, which is more than four times the current production level estimates. Additionally, estimates show more than 2.5 billion pounds of recycled cooking oil are produced annually, with approximately 100 million gallons worth of production that could be used to meet biodiesel demand.

How will increased demand for biodiesel impact the farm economy?

Based on the USDA baseline estimates for future soybean production, over a five year time period the biodiesel tax incentive could add almost $1 billion directly to the bottom line of U.S. farm income. In addition, the provisions will significantly benefit the U.S. economy and could increase U.S. gross output by almost $7 billion.

An August 2002 report prepared by USDA's Office of Energy Policy and New Uses working with the Economic Research Service estimated biodiesel demand to increase from its 2002 level of 13 million gallons to at least 124 million gallons a year. This increase in demand would result in higher soybean and soybean oil prices and a decrease in soybean meal prices over the ten year time period, improving the overall value of the soybean. For every 100 million gallons of demand, the price of a bushel of soybeans is expected to increase by 10 cents.